

Message Text

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FM SECSTATE WASHDC

TO USMISSION GENEVA PRIORITY

INFO AMEMBASSY LIMA

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EXDIS GENEVA FOR STEPHEN CANNER; CANNER PASS COOPER ONLY

E.O. 11652: GDS

TAGS:EFIN, PE

SUBJECT:PERU

LIMA FOR AMBASSADOR ONLY

1. AS BACKGROUND FOR POSSIBLE TALKS BETWEEN PERUVIANS AND UNDERSECRETARY COOPER, WE PRESENT WHAT WE LEARNED IN DISCUSSIONS TODAY WITH IMF OFFICIALS. THE IMF WAS EMPHATIC IN ITS REQUEST THAT THIS INFORMATION BE HELD IN STRICTEST CONFIDENCE.

2. IMF TEAM FOUND PERU HAS NOT REPEAT NOT COMPLIED WITH IMF TARGETS SINCE MID-DECEMBER, 1977, AND SITUATION IS WORSENING. IMF CONCLUSIONS ARE THE FOLLOUING: FUNDA-
MENTAL PROBLEM IS GOP FAILURE TO UNDERTAKE NEEDED FISCAL

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REFORMS, ESPECIALLY ON THE REVENUE SIDE. THE ENTIRE BUDGET FOR WAGE INCREASES HAS ALREADY BEEN EXPENDED, AND GOP SAYS IT IS CONSIDERING GRANTING ANOTHER WAGE INCREASE IN APRIL. AS AGAINST IMF 1978 FISCAL DEFICIT TARGET OF SOLES 35 BILLION, CURRENT ESTIMATES ARE THAT DEFICIT WILL REACH AT LEAST SOLES 50 BILLION, EVEN WITH POSITIVE ASSUMPTIONS CONCERNING GOP ATTEMPTS TO IMPROVE TAX PROGRAM,

AND BRING PUBLIC ENTERPRISE OPERATIONS INTO BALANCE;
NEITHER OF THESE ASSUMPTIONS APPEARS TO BE VALID AT THIS
TIME. THERE IS REAL CONCERN THAT INFLATION MIGHT GET OUT

OF CONTROL (8 PERCENT IN JANUARY).

3. IMF NOW WAITING TO SEE WHAT IF ANYTHING GOP MIGHT
OFFER AS MEASURES TO ACHIEVE STANDBY TARGETS.

4. IN VIEW OF IMF CONCERNS THAT THEIR ASSESSMENTS BE
CONFIDENTIAL, SHOULD THE UNDERSECRETARY MEET WITH DE LA
PUENTE, WE SUGGEST HE MAKE NO REFERENCE TO OUR DISCUS-
SIONS WITH IMF IN WASHINGTON, BUT ASK FOR PERU'S ASSESS-
MENT OF HOW THE IMF REVIEW WENT AND WHEN THEY EXPECT
TO BE ABLE TO DRAW THE SECOND TRANCHE. VANCE

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